



# *Annual Direct Loan Conference*



## ***Session 31***

# ***Direct Loan Policy Update***



# ***Direct Loan Policy Update***

- ★ ■ Introduction and New Initiatives
- Repayment Incentive Benefits
- Total and Permanent Disability Discharge
- Loan Forgiveness Programs
- Inadvertent Overborrowing



# ***Repayment Incentive Benefits***



## ***Two Benefits for Borrowers***

- Up-Front Interest Rebate
  - Direct Subsidized Loan
  - Direct Unsubsidized Loan
  - Direct PLUS Loan
  
- 0.8% Interest Rate Reduction
  - Direct Consolidation Loan



## ***Purpose of Benefits***

- To encourage timely repayment of Direct Loans

- To keep--

Borrower must make ALL of first 12 required monthly payments on time



## ***Up-Front Interest Rebate***

Direct Subsidized Loan  
Direct Unsubsidized Loan  
Direct PLUS Loan

- Equal to 1.5% of gross loan amount
- Same as lowering interest rate by about 0.24%--but borrower benefits up front



# ***Implementation of Rebate***

- Explained in DLB-00-48

- Implemented in two phases--



00-01 Program Year



01-02 Program Year & Beyond





## ***Phase I: Rebate on 00-01 Loans***

- Up-front credit to borrower's loan account with Direct Loan Servicing Center (DLSC)
- Credit is--
  - Equal to 1.5% of gross disbursement amount
  - Applied to account after each actual disbursement is reported to DLSC
  - Effective as of disbursement date



## ***Phase I: Rebate on 00-01 Loans***

### **Example: \$2,000 Direct Subsidized Loan**

- School plans two gross disbursements of \$1,000 each
- School makes 1st disbursement on 8/15/00
- Rebate amount is  $0.015 \times \$1,000 = \$15$
- DLSC credits \$15 to loan account effective 8/15/00
- Outstanding principal balance as of 8/15/00 is \$985
- Same credit for 2nd disbursement after it is made



## ***Phase II: Rebate on 01-02 Loans***

- Up-front add on to borrower's net disbursement amount
- Add on is--
  - Equal to 1.5% of gross disbursement amount
  - Added after loan fee is subtracted from gross disbursement amount



## ***Phase II: Rebate on 01-02 Loans***

Gross Disbursement Amount

- Loan Fee

+ Rebate Amount

= Net Disbursement Amount



## ***Phase II: Rebate on 01-02 Loans***

### **Example: \$2,000 Direct Subsidized Loan**

- School plans two gross disbursements of \$1,000 each
- School makes 1st disbursement on 8/15/01
- Loan fee is  $0.03 \times \$1,000 = \$30$
- Rebate amount is  $0.015 \times \$1,000 = \$15$
- After \$30 loan fee is subtracted, \$15 rebate is added  
$$\$1,000 - \$30 + \$15 = \$985$$
- Net disbursement amount is \$985
- Outstanding principal balance as of 8/15/01 is \$1,000
- Same calculation for 2nd disbursement



## ***0.8% Interest Rate Reduction***

Direct Consolidation Loan

- Lower interest rate if--

Loan is made on or after October 1, 2000

**AND**

Application is postmarked, transmitted electronically, or taken over phone no later than September 30, 2001



## ***0.8% Interest Rate Reduction***

- Explained in DLB-00-51
- Available to all borrowers otherwise eligible for Direct Consolidation Loan
- Borrowers may apply--
  - On-line
  - By mail
  - By phone if consolidating only Direct Loans



## ***0.8% Interest Rate Reduction***

- Interest rate of record will be lesser of--

Weighted average of rates on loans consolidated rounded up to nearest higher one-eighth of one percent

**OR**

8.25%

- Interest rate of record--
  - Results from normally applicable calculation
  - Used to calculate monthly payment amount
  - Shown on statements





## ***0.8% Interest Rate Reduction***

- Until borrower fulfills 12-payment requirement, DLSC will--

Subtract 0.8% from interest rate of record

**AND**

Use lower rate when calculating actual amount of interest owed



# ***0.8% Interest Rate Reduction***

***Example: Before 12 Payments Are Made***

- Interest rate of record for loan is 8.25%
- DLSC subtracts 0.8% from 8.25% and uses 7.45% when calculating actual amount of interest owed
- DLSC uses 8.25% to calculate monthly payment amount



## ***0.8% Interest Rate Reduction***

- After borrower fulfills 12-payment requirement, DLSC will--

Change interest rate of record to lower rate

**AND**

Recalculate monthly payment amount  
using new lower interest rate of record



# ***0.8% Interest Rate Reduction***

***Example: After 12 Payments Are Made***

- Existing interest rate of record for loan is 8.25%
- DLSC changes interest rate of record to lower rate of 7.45%
- DLSC recalculates monthly payment amount using 7.45% and notifies borrower



## ***0.8% Interest Rate Reduction***

- If borrower does not fulfill 12-payment requirement, DLSC will--

Make no change to interest rate of record

**AND**

Stop using lower rate to calculate actual amount of interest owed from that point on



## ***12-Payment Requirement***

Up-Front Interest Rebate  
Interest Rate Reduction

■ To keep--

Borrower must make ALL of first 12  
required monthly payments on time



## ***12-Payment Requirement***

- Will explain in Q&A document
- Applies to each loan that receives benefit
- DLSC--
  - Reminds borrower of requirement
  - Tracks borrower's payments
  - Determines if borrower fulfills requirement
  - Notifies borrower if requirement is not fulfilled



## ***12-Payment Requirement***

- Payment is on time if--  
DLSC receives no later than 6 calendar days after payment due date
- Each of first 12 payments must be on time
- Borrower loses benefit if--  
DLSC receives one payment 7 or more calendar days after payment due date





## ***12-Payment Requirement***

- Electronic Debit Account (EDA) option may help ensure on time payments
- Under EDA, bank automatically deducts payment from checking or savings account
- Borrower also receives 0.25% interest rate reduction while repaying through EDA option



## ***12-Payment Requirement***

- Only required payments count towards fulfilling requirement
- Must be at least equal to full required monthly payment amount
- Prepayments count if equal to full required monthly payment amount



## ***12-Payment Requirement***

- DLSC checks loan account after borrower's 12th monthly payment is due
  - If requirement is fulfilled, borrower keeps incentive
  - If requirement is not fulfilled, borrower loses incentive

### ***Note***

DLSC also checks if borrower consolidates loan with up-front rebate before 12th payment is due



## ***12-Payment Requirement***

- If borrower loses an up-front interest rebate--

DLSC adds rebate amount back to principal balance on loan account

- If borrower loses 0.8% interest rate reduction--

DLSC calculates interest using higher rate from that point on



# ***Total and Permanent Disability Loan Discharge***

- Final regulations November 1, 2000
  - New definition of “totally and permanently disabled”
  - Conditional discharge
  - Interim reaffirmation requirement
- Direct Loan, FFEL, and Perkins



# ***Total and Permanent Disability Loan Discharge***

- New regulations implemented in two phases
- Effective July 1, 2001:
  - Revised definition
  - Reaffirmation required to receive new Title IV loan
- Effective July 1, 2002:
  - Conditional discharge



## ***New Definition***

- Effective July 1, 2001, “totally and permanently disabled” means:
  - Unable to work and earn money because of illness/injury expected to continue indefinitely or result in death
- What has changed?
  - Inability to attend school removed: school attendance no longer disqualifying



## ***Reaffirmation***

- Interim requirement until conditional discharge process is implemented
- Borrower must reaffirm previously discharged loan before receiving new loan
- For Title IV loans discharged due to total and permanent disability **on/after July 1, 2001 and before July 1, 2002**
- Required only if new loan received **within 3 years** from date of total and permanent disability





## ***Reaffirmation***

- Reaffirmation means acknowledgement of loan in legally binding manner
- May include--
  - Signing new promissory note
  - Making payment on loan
  - Signing repayment agreement



## ***Reaffirmation***

- Reaffirmation is **in addition to** current eligibility requirements:
  - Physician's certification of ability to engage in substantial gainful activity
  - Written acknowledgement that new loan cannot be discharged based on impairment present when new loan is made
- School may not disburse new loan until borrower meets all requirements, including reaffirmation



## ***Reaffirmation***

- Refer borrower to prior loan holder (DLSC, GA, school) for reaffirmation if--
  - ★ – Borrower received total and permanent disability discharge on or after July 1, 2001 and before July 1, 2002
  - Borrower requests new loan within 3 years from discharge date
- Prior holder determines if reaffirmation is required based on date borrower became totally and permanently disabled



## ***Reaffirmation***

- If reaffirmation is not required, prior holder notifies school
  - Borrower must still provide physician's certification and written acknowledgement
- If reaffirmation is required, prior holder notifies school when borrower has reaffirmed



# ***Conditional Discharge***

- Effective July 1, 2002
  - For loans discharged on/after July 1, 2002
  - Previous requirements continue to apply for loans discharged before July 1, 2002
- Response to IG's findings of inappropriate discharges



## ***Conditional Discharge***

- Borrower who meets definition of totally and permanently disabled receives conditional discharge
- Conditional discharge period lasts up to 3 years from date borrower became totally and permanently disabled
- No payments required during conditional discharge period



## ***Conditional Discharge***

- During conditional discharge period, ED monitors borrower's status
- Final discharge granted if, during and at end of conditional discharge period, borrower--
  - Does not have annual earnings from employment that exceed HHS poverty line for family of 2
  - Does not receive new Title IV loan



## ***Conditional Discharge***

- If borrower does not continue to meet eligibility requirements during and at end of conditional discharge period--
  - Conditional discharge is lifted
  - Loan returns to appropriate status





## ***Conditional Discharge***

- To receive new loan during conditional discharge period, borrower must --
  - ★ -- Provide physician's certification (same as now)
  - Sign acknowledgements that--
    - New loan and conditionally discharged loan may not be discharged based on condition present when new loan is made or when borrower applied for discharge
    - Conditionally discharged loan will be removed from conditional discharge status
- In addition, conditional discharge must be lifted before new loan is made



## ***Documenting Eligibility for New Loan***

- No change from current requirements
- School must --
  - Send applicable documentation of student's eligibility to LOC
  - Retain copies of above in student's file



## ***Application***

- ★ ■ Borrowers will be notified of July 1, 2001 changes by addendum to discharge application
- Discharge application will be revised for July 1, 2002 changes
  - Combined form for Direct Loan, FFEL, and Perkins borrowers



# ***Loan Forgiveness Programs***

- Teacher Loan Forgiveness
- Child Care Provider Loan Forgiveness



# ***Teacher Loan Forgiveness***

- Final regulations November 1, 2000
- Effective July 1, 2001
- To encourage individuals to enter and continue in the teaching profession
- For “new borrowers” only
- Forgiveness of up to \$5,000
  - Combined total for Direct Loan and/or FFEL program loans



# ***Teacher Loan Forgiveness***

## ■ “New borrower” means --

- ★ – No outstanding Direct Loan or FFEL loan on October 1, 1998, *or*
- No outstanding Direct Loan or FFEL loan on date new loan obtained after October 1, 1998
- Limited to sub and unsub student loans
- Defaulted loans not eligible
- No refund of payments made



# ***Teacher Loan Forgiveness: Borrower Eligibility***

- Teach full-time for 5 consecutive complete academic years in a low-income elementary or secondary school
  - At least one year must be after 1997-1998
  - Loans must be received before end of 5th year of teaching



# ***Teacher Loan Forgiveness: Borrower Eligibility***

- School must be listed in Annual Directory of Designated Low-Income Schools for Teacher Cancellation Benefits
  - In district that qualifies for Title I funds
  - Selected by ED based on determination that more than 30% of students qualify for Title I services





# ***Teacher Loan Forgiveness: Borrower Eligibility***

- Elementary teacher must demonstrate knowledge and teaching skills in reading, writing, math, and other areas of elementary curriculum
- Secondary teacher must teach in subject area relevant to academic major
- May not receive benefit for same teaching under National and Community Service Act of 1990



# ***Child Care Provider Loan Forgiveness***

- Demonstration program to bring more highly trained people into early child care and keep for longer periods
- In 1998 Amendments to HEA
- ED may issue Notice of requirements
- Annual appropriation required
  - No funds appropriated for FY 1999 or 2000
  - \$1 million appropriated for FY 2001 (**DL and FFEL combined**)
  - Unused funds may not be carried over



# ***Child Care Provider Loan Forgiveness***

- For new borrowers only
  - ★ – As defined for Teacher Loan Forgiveness
- For sub and unsub student loans
- Up to 100% forgiven
  - 20% each year after 2nd and 3rd years
  - 30% each year after 4th and 5th years
- No refund of payments made
- Forgiveness on first-come, first-served basis
  - Priority to borrowers who received forgiveness during prior year



## ***Child Care Provider Loan Forgiveness: Borrower Eligibility***

- Associate's or bachelor's in early child education
- Worked full-time for last 2 years in a child care facility in a low-income community
  - May be home-based
  - Must be licensed or otherwise approved by state or local government
- May not receive benefit for same service under National and Community Service Act of 1990



# ***Teacher Loan Forgiveness***

## ***Child Care Provider Loan Forgiveness***

- Combined DL/FFEL application forms are being developed
- Forbearance may be available during qualifying service
- To apply, contact the Direct Loan Servicing Center

(800) 848 - 0979



# ***Inadvertent Overborrowing***

***HEA Sec. 484(f)***

***34 CFR 668.35(b)***



# ***Overborrowing***

- Borrowers exceeding annual or aggregate maximum loan limits have “overborrowed.”
- Overborrowers are ineligible to receive additional Title IV assistance.



## ***Inadvertent Overborrowing***

- ★ ■ Overborrowing is “inadvertent” only if it is not caused by the borrower’s fraud.
- Inadvertent overborrowers regain Title IV eligibility by--
  - ◆ Repaying the excess amount in full, or
  - ◆ Making arrangements to repay that are satisfactory to the loan holder.





## ***What Inadvertent Overborrowing Isn't***

- Graduate student returns to undergraduate school.
- Dependent undergraduate received additional unsub because parent is not eligible for PLUS.
- Student received funds under additional HEAL unsub limit.



## ***Current Procedure for Restoring Eligibility***

- Overborrowing discovered by FAO.
- Borrower contacts loan holder(s) to make satisfactory payment arrangements.
- Borrower receives and returns signed repayment arrangement.
- Loan holder(s) informs school that arrangements have been made.



# ***Proposed Procedure***



## ***STEP #1***

School determines that the student has overborrowed, usually through information from NSLDS.



## ***STEP #2***

School discusses the overborrowing with the student and resolves any discrepancies in the reported information.





## ***STEP #3***

Student agrees to make arrangements satisfactory with the loan holder(s).

*(Some loan holders may choose not to participate.)*

# STEP #4

## TITLE IV STUDENT LOAN PROGRAM INADVERTENT OVERBORROWING Borrower Repayment Agreement

### 1. Borrower Information

Borrower's Name: \_\_\_\_\_  
Street Address: \_\_\_\_\_  
City / State / Zip Code: \_\_\_\_\_  
Social Security Number: \_\_\_\_\_

### 2. Loan Information:

I have received a loan amount in excess of the allowable annual or aggregate maximums under federal law. The excess amount is \_\_\_\_\_, and it is attributable to the following loan(s):

Lender	Loan Amount	Loan Date	Loan Type (Sub, Unsub, Perkins)
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

### 3. Borrower's Repayment Agreement:

I understand that I have received a loan amount in excess of the allowable annual or aggregate maximums under federal law. The excess amount and the loan(s) to which it is attributable are identified under "2. Loan Information." I agree to repay the full amount of the loan(s), including the excess amount, under the schedule, terms, and conditions included in the original promissory note(s).

I WILL NOT SIGN THIS Obligation before reading it, even if I am advised not to read this Obligation. I understand that I am entitled to an exact copy of this Obligation, and that my school will provide a copy of this signed Obligation to the holder(s) of the loan(s) identified above.

\_\_\_\_\_  
Signature of Borrower

\_\_\_\_\_  
Date Signed

Student signs a  
reaffirmation  
agreement, presented  
by the school, to pay  
the excess at the time  
of repayment of other  
loan debt.



## ***STEP #5***

Student is no longer ineligible.

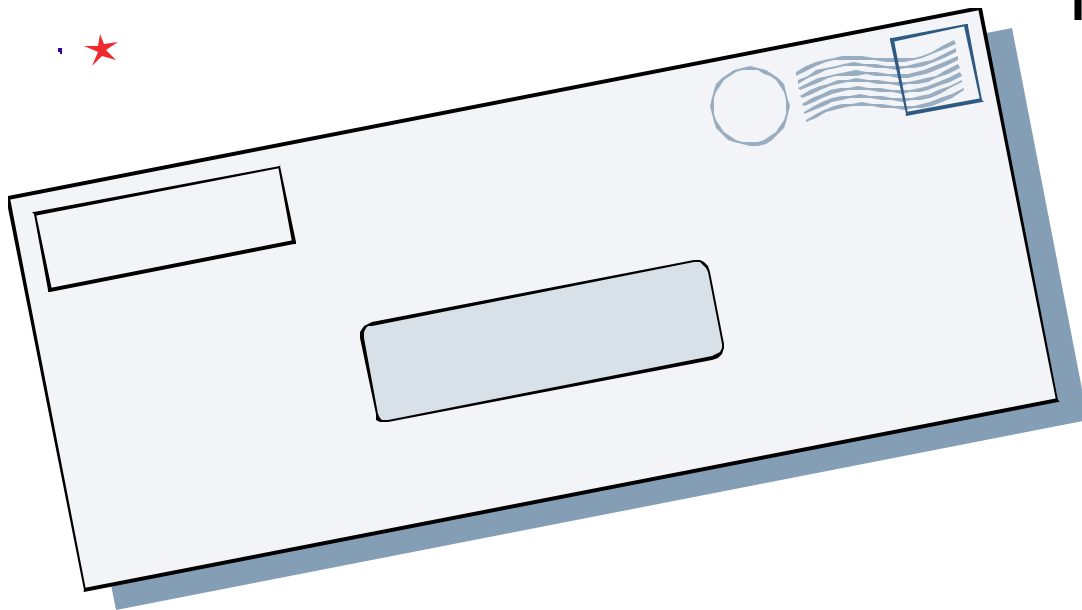
- Student who exceeds sub loan limits may receive unsub loan, Pell, Perkins, and other Title IV aid.
- Student who exceeds sub & unsub loan limits may receive Pell, Perkins, and other Title IV aid.







## ***STEP #6***

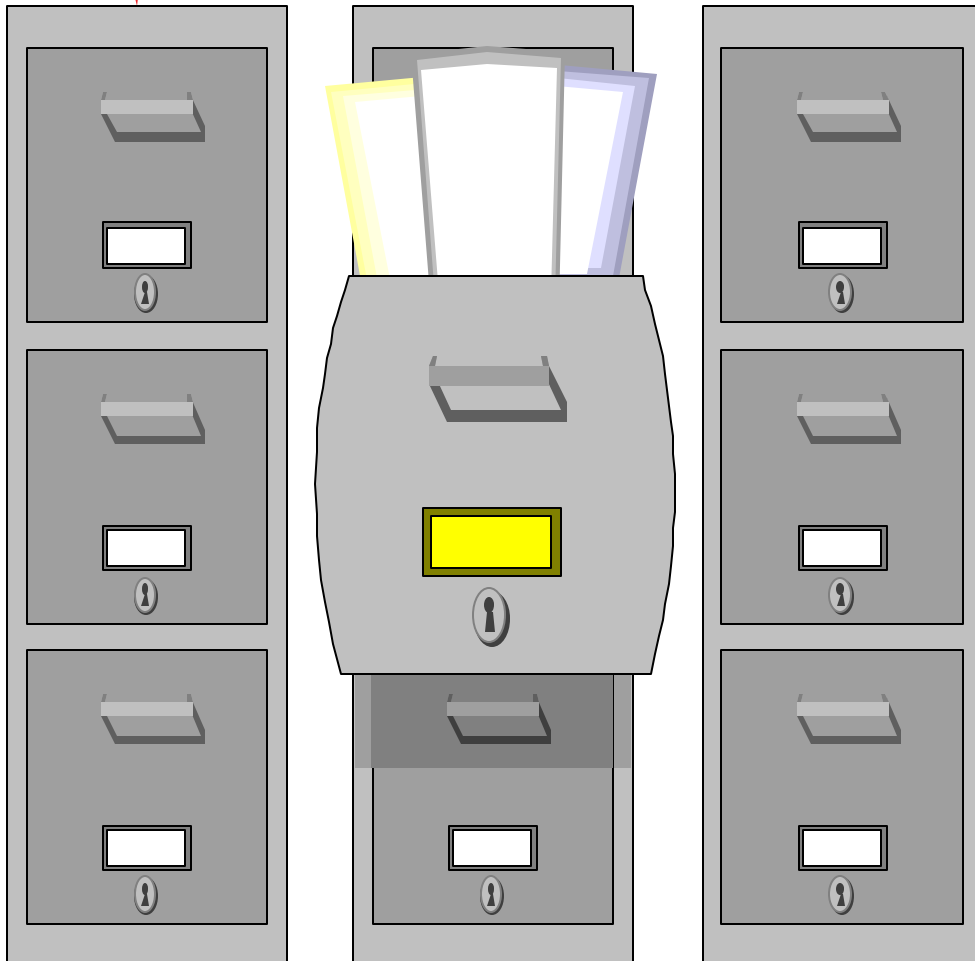


Repayment agreement is sent by the school to the loan holder(s): the FFEL lender, the Direct Loan Servicing Center, or the Perkins school.



## ***STEP #7***

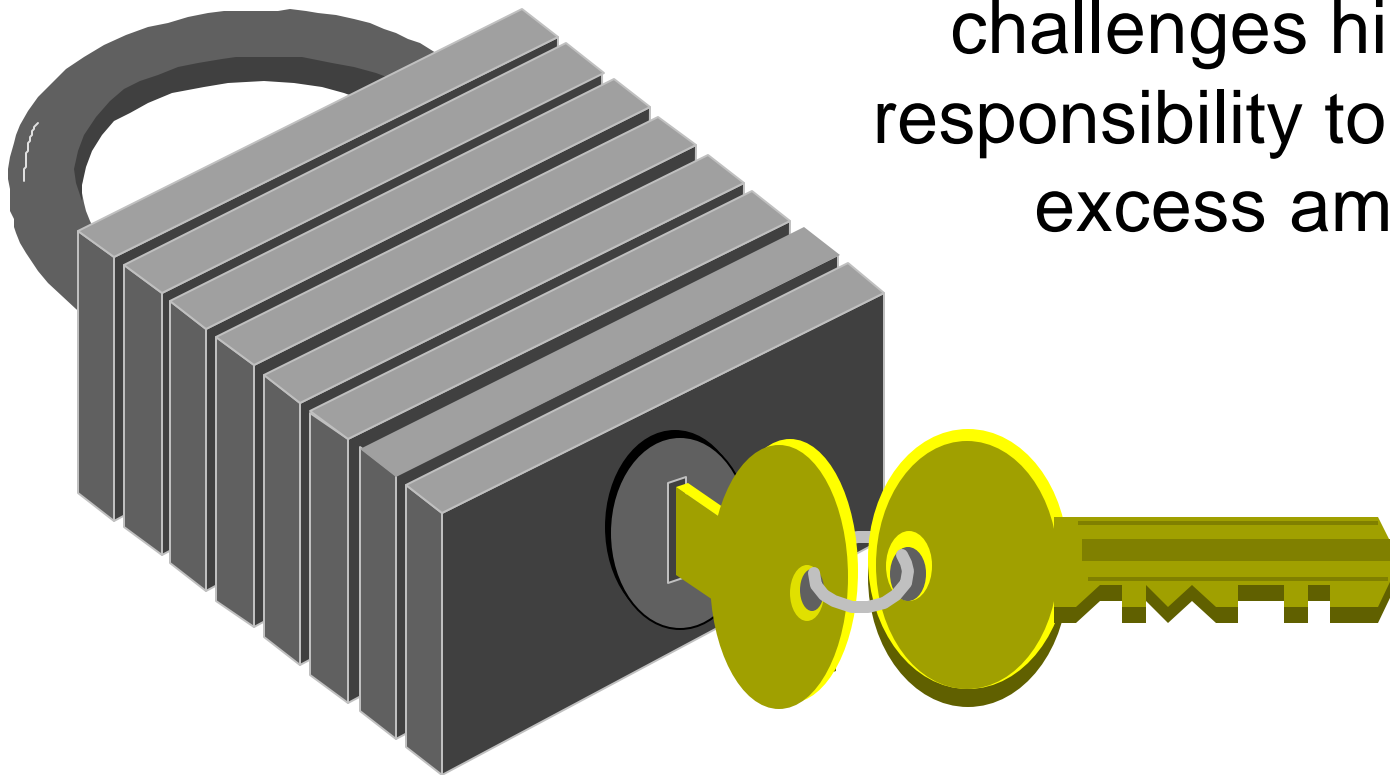
School documents the student's file, including a copy of the agreement, the date the agreement was sent, and the name(s) of the loan holder(s).





## ***STEP #8***

Each loan holder maintains  
a copy of the agreement,  
in case the student  
challenges his or her  
responsibility to repay the  
excess amount.





# ***Example of Proposed Procedure***

# ***Example STEP #1***

Howard is an independent undergraduate student. The FAO discovers that Howard is \$1,000 over his aggregate limit for sub loans.





## ***Example STEP #2***

The FAO talks with Howard.  
Overborrowing was caused by an old  
loan, recently reported to NSLDS.



## ***Example STEP #3***

Howard agrees to make arrangements satisfactory with the loan's holder.

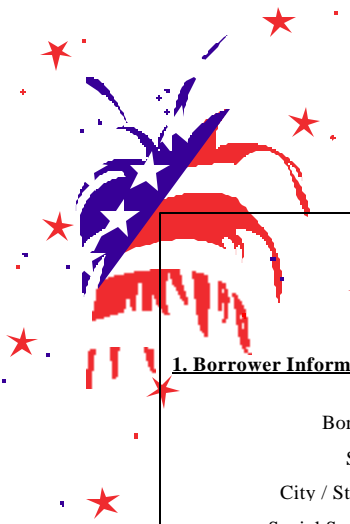
*(FAO has checked to see if the loan's holder participates.)*



# Example

## STEP #4

Howard signs a reaffirmation agreement, presented by the FAO, agreeing to pay the \$1,000 at the time of repayment of other loan debt.



**TITLE IV STUDENT LOAN PROGRAM  
INADVERTENT OVERBORROWING  
Borrower Repayment Agreement**

**1. Borrower Information**

Borrower's Name: Howard  
Street Address: 2000 Oak Street  
City / State / Zip Code: Springfield, WA 98922  
Social Security Number: 222-22-2222

**2. Loan Information:**

I have received a loan amount in excess of the allowable annual or aggregate maximums under federal law. The excess amount is \$1,000, and it is attributable to the following loan(s):

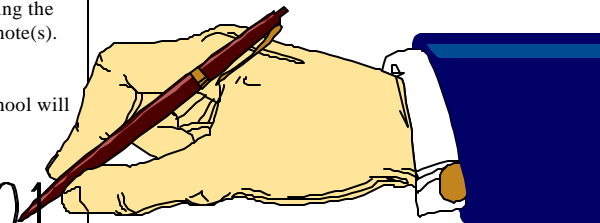
Lender	Loan Amount	Loan Date	Loan Type (Sub, Unsub, Perkins)
<u>Springfield Bank</u>	<u>\$1,000</u>	<u>10/20/2000</u>	<u>Sub</u>
<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

**3. Borrower's Repayment Agreement:**

I understand that I have received a loan amount in excess of the allowable annual or aggregate maximums under federal law. The excess amount and the loan(s) to which it is attributable are identified under "2. Loan Information." I agree to repay the full amount of the loan(s), including the excess amount, under the schedule, terms, and conditions included in the original promissory note(s).

I WILL NOT SIGN THIS Obligation before reading it, even if I am advised not to read this Obligation. I understand that I am entitled to an exact copy of this Obligation, and that my school will provide a copy of this signed Obligation to the holder(s) of the loan(s) identified above.

Howard 3/2/2001  
Signature of Borrower Date Signed







## ***Example STEP #5***

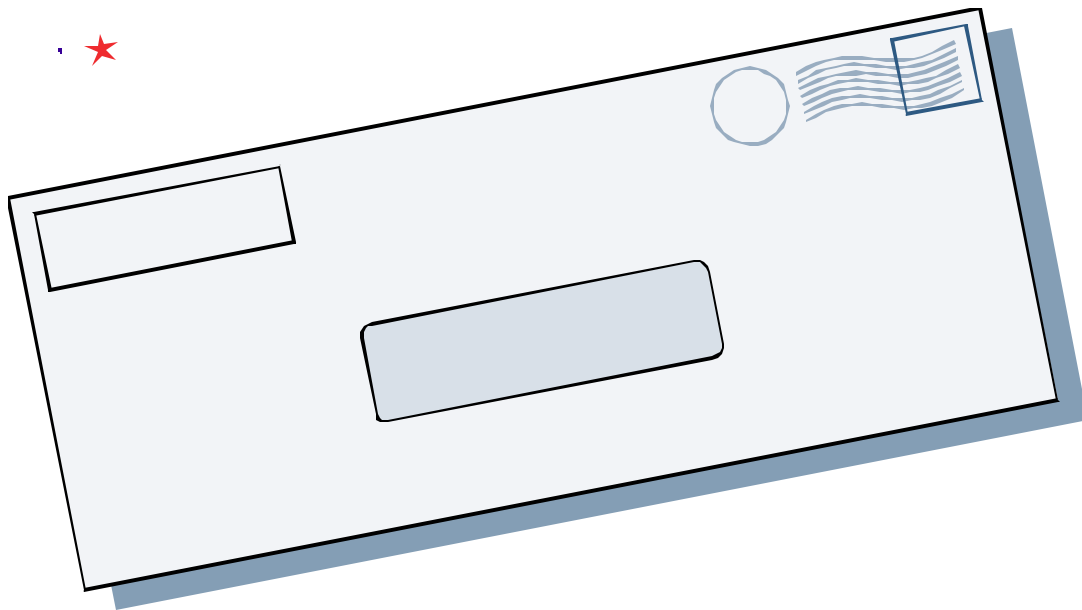
Howard is no longer ineligible based on his inadvertent overborrowing. He may receive additional TIV aid for which he is eligible (including unsub loans), but can't receive more sub loans.





## ***Example STEP #6***

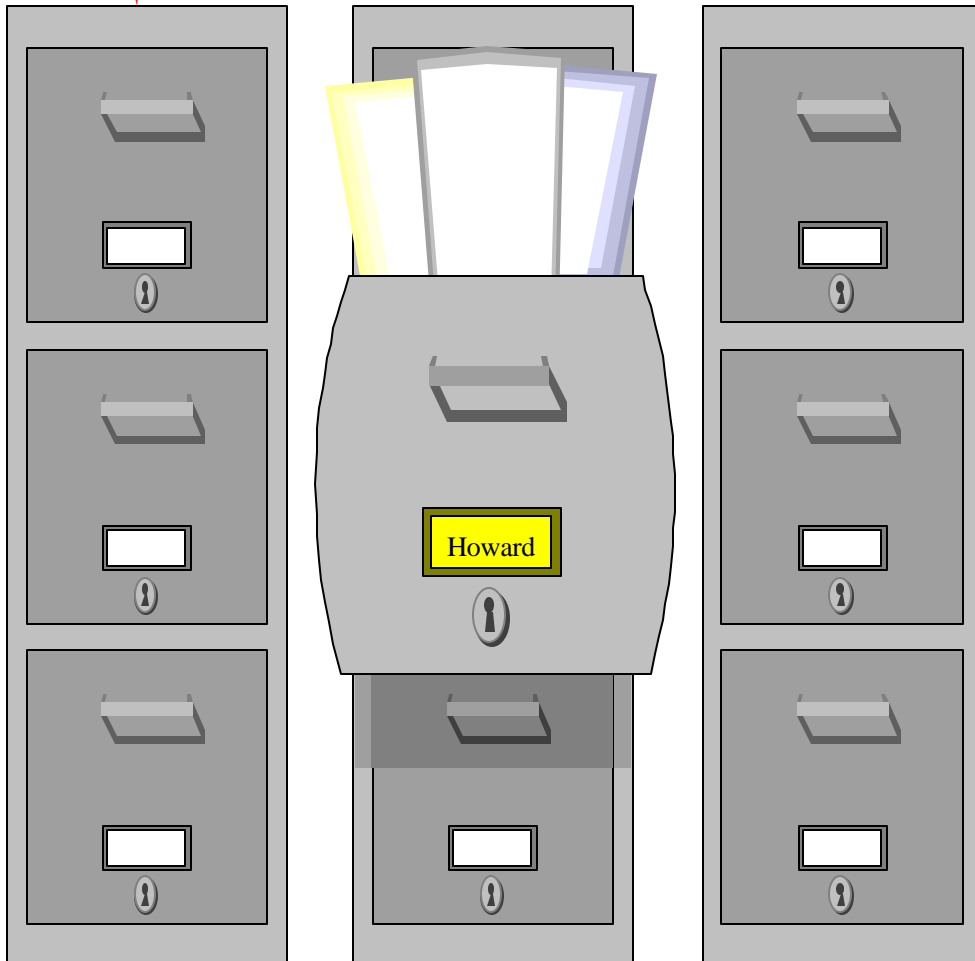
Repayment  
agreement is sent  
by the school to  
the loan's holder.





## ***Example STEP #7***

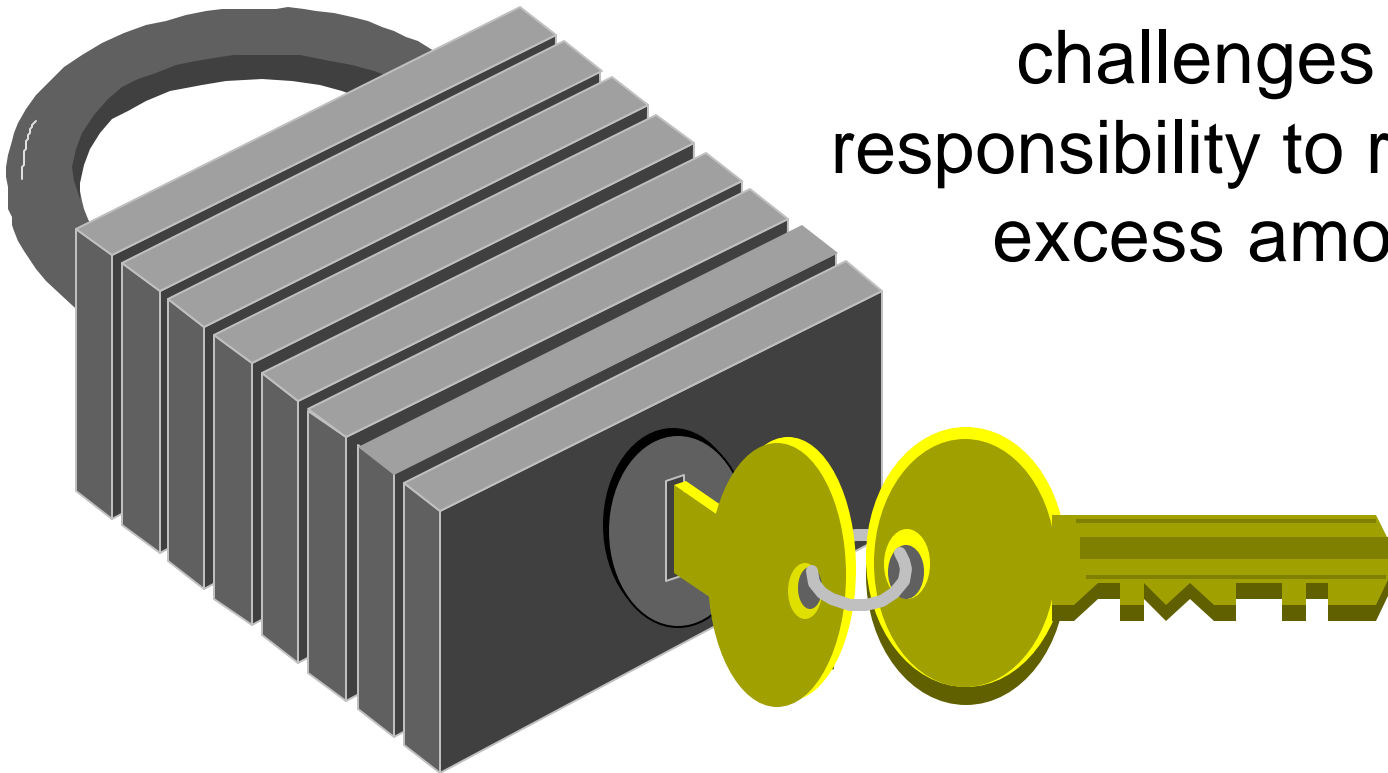
FAO documents  
Howard's file, including  
a copy of the  
agreement, the date  
sent, and the name of  
the loan holder.





## ***Example STEP #8***

The loan's holder maintains  
a copy of the agreement,  
in case Howard  
challenges his  
responsibility to repay the  
excess amount.





# ***Comments on proposed procedure?***



## ***Contacting Us***

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